

Historic Old Town Hall



City Manager's Budget Message FY 2016 Budget

FY 2016 Adopted Budget Highlights

- Expenditures for all funds total \$170,598,944, an increase of 5.8% from FY 2015
- General Fund revenues and expenditures of \$130,464,802, an increase of 1.9% over FY 2015
- Capital Fund expenditures for General Fund supported projects of \$6,505,532 (\$5,008,106 pay as you go and \$1,497,426 debt service) representing 5.0% of General Fund expenditures
- A 1.2¢ real estate tax rate increase to \$1.052 per \$100 of assessed value, which includes 2.0¢ dedicated to the Stormwater Fund; average residential tax bill to increase 4.09%
- The real estate tax rate necessary to provide residential equalization, whereby the average homeowner would pay no more in taxes than in the prior year equates to \$1.01 per \$100 of assessed value
- A 2.0¢ increase in the Commercial and Industrial real estate tax, from 5.5¢ to 7.5¢ per \$100 of assessed value
- One cent on the real property tax rate is equivalent to \$567,166
- Real estate residential assessments increase an average of 2.9% for CY 2015; commercial assessments decrease an average of 2.1% for CY 2015; combined assessments increase an average of 1.2% for CY 2015. New Construction has been excluded from this calculation
- Based on increase in value, assessed value of all real property equal to \$5,611,206,804, an increase of \$62,256,004 or 1.1%. The increase in assessed value due to estimated new construction is \$38,000,000 or 0.7%. Assessed value of all real property equal to \$5,649,206,804, an increase of \$100,256,004 or 1.8%
- Provides a 3.5% merit raise for eligible employees at \$313,494 (General Fund) and a 1.0% market adjustment (COLA) at \$270,407
- Includes an additional full-time equivalent employee for the Parks and Recreation Department
- \$300,000 was allocated from the General Fund to establish an Economic Development Opportunity Fund
- Contributes an additional \$50,000 (\$100,000 total) to fund the City's housing improvement fund (Housing Renaissance Fund)
- Wastewater utility rate increase of 10.0% to support the City's share of capital project costs required for the Noman M. Cole, Jr. Wastewater Treatment Plant
- Use of \$975,017 Unassigned General Fund Balance

Guide to the Budget Document

OVERVIEW

The City's budget serves as a financial and policy plan that guides decisions made during each fiscal year. The budget is the single most important document we have for establishing control over the direction of change and determining the future of the City. It lays the groundwork for what we hope will be our community's continued future prosperity. Within the pages of the document, the reader will find:

- A fiscal plan
- Revenue and expenditure summaries
- Policy statement
- Goals and objectives
- An annual operating program
- A long range planning guide
- A management tool to ensure financial control
- Performance measures to ensure accountability and evaluate performance

Not all narratives will contain each of these components, but rather only those that are applicable.

BUDGET PREPARATION PROCESS

The development of the City's Operating Budget involves three phases: formulating budget requests, City Manager executive review and proposal, and City Council review and adoption. Each of the three phases is summarized as follows:

Formulating Budget Requests: September – December

- The formative stage of every budget begins in the Fall.
- Work with the City's Budget Committee throughout the entire budget process
- City Council sets guidelines for the budget in November, which provides the framework for developing the new budget. In addition, the City Manager briefs the City Council on the financial summary of the previous fiscal year, and a projection of the current and upcoming fiscal years.
- City agencies assess their budgetary needs and submit requests to the Budget Committee. Requests are typically due in the middle of December.
- Revenue estimates are derived from a review of current and projected economic indicators, current and proposed Federal and State legislation, knowledge of future events in the City and a review of historic trends.

City Manager Executive Review and Proposal: December – February

- Requests from departments are reviewed and evaluated for priority.
- Meetings are held between the departments and Budget Committee to discuss budget requests. Based on estimated revenues, funding is requested by the City Manager for the programs and services required to maintain an essential level of service or to provide for enhancements to programs identified as priorities by City Council.
- City Manager proposes the budget to City Council in late February or early March.
- By law, local government budgets must be balanced; i.e., expenditures may not exceed revenues.

City Council Review and Adoption: March – May

- City departments provide department budget presentations.
- City Council advertises the proposed real estate tax rate (mid to late March)
- Council reviews the proposed budget and a minimum of two public hearings are held to provide the public with an opportunity to comment to ensure the budget is responsive to citizen needs.
- After careful deliberation, the proposed budget, as modified for additions and deletions, is enacted by City Council as the adopted budget. In addition, City Council adopts the real estate tax rate, all other rates and levies, and the budget appropriation resolution.
- The budget can only be amended by the City Council after proper notice and a public hearing.
- The Adopted Operating Budget takes effect on July 1, the beginning of the fiscal year.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and presented to the City Council and the Planning Commission in a joint work session for discussion. The Planning Commission holds a public hearing on the CIP and issues a memorandum to the City Council with recommendations. The City Council holds a series of work sessions and public hearings on the CIP and defers action until adoption of the operating and capital budgets in April/May. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources. A capital budget (the first year of the CIP) is included in the operating budget—together they become the adopted budget. The CIP document contains all detailed project and budgetary information for the full five year period.

BUDGET REVIEW SCHEDULE

The following dates were scheduled for City Council review and approval of the budget, but are subject to change per City Council:

FY 2016 Budget Calendar

Date	Action Item
October 28, 2014	Discussion of the FY 2014 Financial Results, FY 2015 Budget Update, Projections for FY 2016, and suggested FY 2016 Budget Guidelines.
November 18, 2014	FY 2016 Budget Guidelines – Public Hearing and Adoption
December 2, 2014	FY 2016 CIP Joint Work Session w/Planning Commission; Major Department CIP Presentations
March 3, 2015	FY 2016 Proposed Budget Presentation
March 5, 2015	FY 2016 Budget Staff Presentations to Council and Community Outreach
March 10, 2015	FY 2016 Budget Public Hearing; Consideration of Real Estate Tax Rate to be Advertised*
March 24, 2015	FY 2016 Public Hearing and City Council Budget Discussion Work Session
April 7, 2015	FY 2016 City Council Budget Discussion Work Session
April 14, 2015	FY 2016 Introduction of C&I, Wastewater; RE Tax Rate Public Hearing
April 21, 2015	FY 2016 City Council Budget Discussion Work Session
April 29, 2015	FY 2016 Public Hearings: Budget, Rates & Levies, C&I, Wastewater, Budget Adoption (Note: WEDNESDAY replacing Tuesday's regular Council Meeting)

* Required 30 days advance notice prior to public hearing on real estate tax rate if assessments are to increase greater than 1%. ¹

ORGANIZATION OF THE BUDGET

The City's financial operations are budgeted and accounted for in a number of funds. Fiduciary funds, used to account for assets held by the City in a trustee capacity (i.e. City retirement funds), are not included. A fund is a separate accounting unit. All of the following funds are adopted (through appropriation resolutions) and included in the budget book as part of the City's annual budget review:

General Fund — This fund is the principal operating fund of the City, used to account for all expenditures and revenues not required to be accounted for in other funds. Generally, the majority of the spending incurred in performing the normal functions of the City, such as public works, public safety, administration, etc., is captured in the General Fund. The major revenue sources that fund these functions are general property taxes, other local taxes, licenses & fees, fines & forfeitures, charges for services, use of money & property, and State & Federal aid.

General Fund (continued) – General government services and expenditures are organized into the following functions: Legislative, Judicial Administration, Electoral Board, General & Financial, Public Safety, Public Works, Social Services, Recreation & Cultural, Community Development & Planning, Education, and Non-departmental (primarily fringe benefits and debt service). Within each General Fund function are departments that account for a specific set of governmental activities. For example, within the Public Safety function are the Fire and Police departments. Every department accounts for its activities in various accounts. While budgetary control is exercised at the department level, accounts are utilized to allow for more detailed management.

Capital Fund — Each year, the City adopts a five-year Capital Improvement Program (CIP) that serves as a blueprint for the long-term physical improvements the City wishes to make. The Capital Fund is funded through transfers from the General, Stormwater, Transportation Tax, Cable, Downtown, and Wastewater funds, the Northern Virginia Transportation Authority (NVTA), Federal and State aid, bond issues, and private donations. The current year CIP is included as part of the annual budget.

Stormwater Fund — This fund was established to account for major stormwater projects. Two cents on the real estate tax rate are dedicated for project funding. This is a separate Capital Fund.

Cable Grant Fund — This fund receives its revenue from cable television fees, which can only be used for cable television equipment. This is a separate Capital Fund.

Old Town Service District Fund – This fund was established to fund services and commercial projects in the Old Town District. The City levies an additional 6 cents per \$100 of assessed value on all properties in this district.

Utility Fund — Wastewater services are accounted for in the Utility Fund, which is an enterprise fund. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

Transit Fund — The Transit Fund is used to account for operations of the City's transit system. The City's transit system owns and operates the CUE bus system and funds the City's share of Washington Metropolitan Transportation Authority (WMATA) costs. The Transit Fund receives funding from the NVTA and the Northern Virginia Transportation Commission (NVTTC).

Transportation Tax Fund – This fund levies an additional 7.5 cents per \$100 of assessed value on all commercial and industrial properties. This fund also accounts for "30%" monies received from the NVTA pursuant to HB2331. The revenue collected is to be used exclusively for approved transportation projects and transit costs.

BUDGETARY BASIS

The budgets of the General and Capital funds (including Stormwater, Old Town Service District, Cable Grant, and Transportation Tax) utilize the modified accrual basis of accounting under which revenues are recorded when measurable and available to finance operations during the year. Expenditures, except for interest, are recorded when the liability is incurred. Interest is recorded when due. Budgets of the Wastewater and Transit funds utilize the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred. The budget basis of accounting does not materially differ from that used for financial reporting (all funds), with the notable exceptions of depreciation and amortization, and debt service reporting in the enterprise funds, which are more appropriately illustrated in the City's Comprehensive Annual Financial Report (CAFR).



Council Goals*

1. *Economic Development:*

- Capture opportunities for economic development and advance the economic health of the City through balanced business expansion, retention, attraction, incubation, and placement to progress a business environment conducive to maintaining the quality of life to which our residential and business communities have become accustomed.

2. *Governance:*

- Maintain a high-performing, efficient, and effective governing system through open, multi-modal communication with our residential and business communities; ensure active participation from our diverse citizenry, and a professional, capable City administration collectively creating a model of successful municipal governance to sustain the City as a vital, thriving community.

3. *Neighborhoods:*

- Build strong, safe, and secure neighborhoods, and improve residential quality of life through active community participation, improved connectivity through enhanced and inclusive communication, provide a safety net for those in need, well-funded renovation programs, a culture of shared accountability, and robust city services.

4. *Transportation:*

- Provide for the safe, efficient, and effective movement of pedestrians, cyclists, motorists, mass transit and commercial vehicles through the City and region by use of a transportation infrastructure with traffic control systems that maximize safety, ease of use, and reliability while minimizing travel time and inconvenience.

5. *Development and Redevelopment:*

- Enable appropriate, targeted, sustainable, and transportation-oriented mixed use development and redevelopment that expands on our sense of place, supports our changing demographics, prioritizes housing affordability, and significantly contributes to the economic strength of the City.

***These goals were adopted by the City Council on July 22, 2014.**

Council Strategic Priorities Linked by Function

The five strategic priorities generated by the City Council provide the framework to align our top strategic priorities through City Departments in creating goals and objectives that support the City Council's vision and achieve operational and sustainable accountability.

The relationship between departments and related council strategic priorities are identified in the chart below:

<i>Strategic Priority</i>					
<i>Function</i>	#1 <i>Economic Development</i>	#2 <i>Governance</i>	#3 <i>Neighborhoods</i>	#4 <i>Transportation</i>	#5 <i>Development & Redevelopment</i>
Legislative		✱			
Judicial Administration		✱			
Electoral Board		✱			
General and Financial Administration	✱	✱	✱		✱
Public Safety			✱		
Public Works			✱	✱	✱
Social Services			✱		✱
Culture and Recreation	✱		✱		✱
Community Development and Planning	✱		✱	✱	✱
School Board/Education			✱		

Water and Wastewater Fiscal and Operating Policies*

ESTABLISHMENT OF RATES

1. Water and Wastewater rates and fees shall be established by City Council in a transparent manner consistent with all similar City activities. To that end, customers and residents (the rate payers) shall be given notice of all meetings of the City Council when such discussions and rate settings occur. In the establishment of annual Water and Wastewater rates, the City shall adequately disclose future growth plans and their expected impact on future rates.
2. The City shall annually prepare and include in the adopted budget a three-year future estimated rate schedule.
3. All ratepayers shall be charged uniform rates within their rate class. The determination of rates for the enterprise funds shall conform to standard municipal utility practices.
4. Rates for the enterprise funds, including the timing of rate adjustments, shall be designed to recover fixed and variable costs in such a manner as to ensure cost recovery and rate stability.
5. Rates of the enterprise funds shall be established to 1) ensure efficient and effective operation of the utilities, 2) fully recover actual operating and maintenance expenses incurred during the fiscal year, 3) repay annual debt payments for capital expenses of the enterprise fund, and 4) ensure surplus revenues are reserved to facilitate rate stability for ratepayers.

APPLICATION OF THE MANAGEMENT FEE

1. The Water and Wastewater utilities shall reimburse services received from other City departments, including but not limited to, personnel, administrative expenses, equipment and facilities. These services shall be prorated to reflect actual costs and designated as the “management fee”. The Water and Wastewater enterprise funds shall pay the City for, or reimburse the City for materials and services purchased during the fiscal year when consumed.
2. The procedures used to allocate each fund’s share of the management fee shall be reviewed by the City’s auditor not less frequently than every five years. The results of such a review shall be included as part of the documentation for subsequent rate proceedings. Unless otherwise justified by the auditor’s review, the total amount included in the Water and Wastewater enterprise funds for payment to the City, or other entities, for management fee expenses may each be increased at a rate no greater than the growth rate of the City’s total budget.

*** Because the Fiscal and Operating Policies were adopted by Council, they cannot be amended without Council action. These policies will be amended at a future date. With the City’s transition out of the water treatment and distribution business in January 2014, policies relating to the Water Fund no longer apply.**

RECOVERY OF CAPITAL INVESTMENT

1. Utility physical plant investments in excess of normal and customary repair and replacement will be capitalized and amortized for rate setting over their useful lives, either through depreciation/amortization or sinking fund amortization of borrowings. Normal and customary repair and replacement will be expensed when incurred during the fiscal year. Depreciation and amortization shall conform to standard municipal utility practices.

UNDESIGNATED FUNDS

1. Surplus revenues, also known as Undesignated Funds, will be used in lieu of customer revenues, if possible, when those surplus funds reach a level equal to 100% of the prior year's fund expenses, unless such funds are to be held for pay-as-you-go capital expenses.
2. Surplus revenues shall be invested through the City and the interest earned shall be credited to the respective Water and Wastewater funds. Surplus revenues shall not be transferred from their respective Water and Wastewater accounts to be used for non-utility purposes.

Council Adopted Financial Policies

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the City, in April 2000, the City Council initially enacted a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. Revisions to the financial policies were incorporated per recommendations by the Budget Committee and approved by the City Council in November of 2008.

Budgeting Policies:

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
 - a. Mayor and City Council shall develop general budget guidelines and provide them to the City Manager by November 15.
 - b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
 - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
 - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.
 - e. The Mayor and City Council shall conduct a quarterly review of the implementation of the budget.
3. Budgeted current revenues must be greater than budgeted current expenditures.
 - a. Significant one-time revenues shall be used only for one-time expenditures.
 - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.

4. The target for the General Fund transfer to the Capital Fund shall be at least 5 percent of General Fund expenditures to help ensure adequate reinvestment in capital plant and equipment. This transfer percentage incorporates the City's use of annual debt service payments toward capital projects.
5. The City shall set utility rates for the Water* and Wastewater funds that will ensure industry-standard operation of the enterprise functions.

Reserve Policies:

1. The target for the General Fund balance shall be, at minimum, approximately 10 percent of General Fund expenditures.

Debt Policies:

1. Debt Service Targets
 - a. Annual debt service expenditures shall be less than 9 percent of annual expenditures.
 - b. Outstanding Debt shall be less than 3 percent of assessed valuation.
2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Revenue/Cash Management Policies:

1. The City shall develop an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue stream.
3. Annual City revenues shall be projected by an objective and thorough analytical process.
4. The City shall deposit all funds within 24 hours of receipt.
5. Investment of City funds shall emphasize the preservation of principal with safety, with liquidity and yield being the primary factors considered.

- * Because the Fiscal and Operating Policies were adopted by Council, they cannot be amended without Council action. These policies will be amended at a future date. With the City's transition out of the water treatment and distribution business in January 2014, policies relating to the Water Fund no longer apply.

Accounting/Auditing and Financial Reporting Policies:

1. The City shall take necessary action to ensure receipt of the Government Finance Officers Association annual accreditation for the budget and for the comprehensive annual financial report (audit).
2. An independent audit shall be performed annually and a management letter shall be received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.

Council Adopted Budget Guidelines

FY 16 Budget Guidelines were approved by the City Council in November of 2014.

Revenue:

- Projected revenues must equal or exceed proposed expenditures. Significant one-time revenues shall be used only for one-time expenditures.
- The City will pursue federal, state and private grants but will strictly limit financial support of these programs to avoid commitments which continue beyond funding availability.
- Sufficient user charges and fees shall be budgeted to support the full cost (operating, direct, indirect and capital) of operations. Market rates and charges imposed by other public and private organizations for similar services should be considered when establishing tax rates, fees and charges.

Operating:

- Continually review City government programs and operations to achieve the most efficient and effective delivery of community services possible.
- The annual budget process shall weigh all competing requests for City resources within expected fiscal constraints. New initiatives shall be financed by reallocating existing City resources to programs and services with the highest priorities or through new revenue sources.
- Consider allocating funds to the school tuition reserve to absorb unforeseen deficits in future school tuition budgets

Employee Staffing/Compensation/Administration:

- Consider a fair and affordable market adjustment and performance based increase for employees to retain parity with other local governments.
- The City's budget shall fully fund the Annual Required Contribution (ARC) to the City's Supplemental Retirement Plan, as determined by the City's actuaries.

Capital Improvement Program (CIP):

- Maintain the General Fund CIP transfer to provide the minimum funding required for repairs and maintenance to adequately protect the City's investment in infrastructure. The sources of funding will largely be determined based on the useful life of the project. However, the City will use the pay as you go funding method whenever practical.

Fund Balance:

- Maintain an Unencumbered General Fund balance equal to approximately 10 percent of the general fund expenditures in conformance with the City Council financial policy.

Financial:

- Follow the rating agencies and financial advisor directives, in order to maintain the highest possible credit rating.
- Adhere to the Council's adopted financial policies.

Community Profile

City Government

Date of Incorporation	1799
Date of City Charter	1961
Form of Government	Council—Manager
City Employees	399.30

Physiographic

Land Area - Square Miles	6.34
Acres of Public Parks & Open Space	188
Paved – Lane Miles	169
Sidewalks	87

Utilities

Telephone	Verizon
Electric	Dominion Virginia Power
Gas	Washington Gas
Water	Fairfax Water
Wastewater	City of Fairfax
Cable	COX Cable / Verizon

Economic Indicators:

Largest Private Employers (June 2014)

The Wackenhut Corp
Fairfax Nursing Center
Ted Britt Ford Sales
Zeta Associates
Multivision, Inc
Catholic Diocese of Arlington
Fairfax Volkswagen, Honda

Largest Public Employers (June 2014)

City of Fairfax
Dominion Virginia Power
U.S. Postal Service
Department of Rehabilitation Services
U.S. Department of the Treasury

Taxes:

Real Estate Tax Rate

FY 2016: \$1.052 per \$100 assessed value
FY 2015: \$1.040 per \$100 assessed value

Personal Property Tax Rate

FY 2016: \$4.13 per \$100 assessed value
FY 2015: \$4.13 per \$100 assessed value

City Finances – Bond Ratings

Moody's Investors Service, Inc	Aaa
Standard & Poor's	AAA

Population

2013 UVA Weldon Cooper Ctr. Estimate	23,938
2010 U.S. Census	22,671
2000 U.S. Census	21,498
1990 U.S. Census	19,622

Households

2010 U.S. Census	8,347
2000 U.S. Census	8,035
1990 U.S. Census	7,362

Average Household Size

2010 U.S. Census	2.64 persons
2000 U.S. Census	2.61 persons

Age (2010 Census)

(1-19)	22.4%
(20-34)	22.5%
(35-64)	41.5%
(65 +)	13.7%

Race and Ethnicity (2010 Census)

White	61.4%
Hispanic	15.8%
Asian	15.1%
Black	4.6%
Other/Mixed	3.2%

Note: White, Asian and Black categories include non-Hispanics only.

Source: U.S. Census Bureau

Unemployment

	Nov 2013	Nov 2014
City of Fairfax	3.5%	3.5%
Virginia	5.3%	5.0%
United States	7.0%	5.8%

Hotel Industry

	Dec. 2010	Feb. 2014
Number of Hotel Rooms	561	1,138
Occupancy Rate	70%	72%
Average Daily Rate	\$92	\$110

Vacancy Rates

	FY 2012	FY 2014
Office Space	10.4 %	13.6 %
Retail Space	2.8 %	3.7 %
Industrial	<1.0 %	6.7 %

City of Fairfax Employment by Industry

The largest major industry sector was Retail Trade with 18.7% of the employment followed by Professional, Scientific and Technical Services with 17.2%, Health Care and Social Assistance with 15.5% and Accommodation and Food Services with 11.1 %. The following is a listing of major industries and the number employed in those sectors for 2014 in the City of Fairfax.

Industry Group	Employees
Retail Trade	3,758
Professional, Scientific & Technical Services	3,452
Health Care and Social Assistance	3,101
Accommodation and Food Services	2,224
Administrative and Waste Services	1,480
Government	1,207
Other Services (Except Public Administration)	926
Finance and Insurance	807
Public Administration	636
Construction	614
Arts, Entertainment and Recreation	419
Education Services	404
Information	340
Transportation and Warehousing	307
Real Estate, Rental and Leasing	159
Management of Companies and Enterprises	114
Manufacturing	96
Wholesale Trade	66

*Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages, First Quarter 2014*

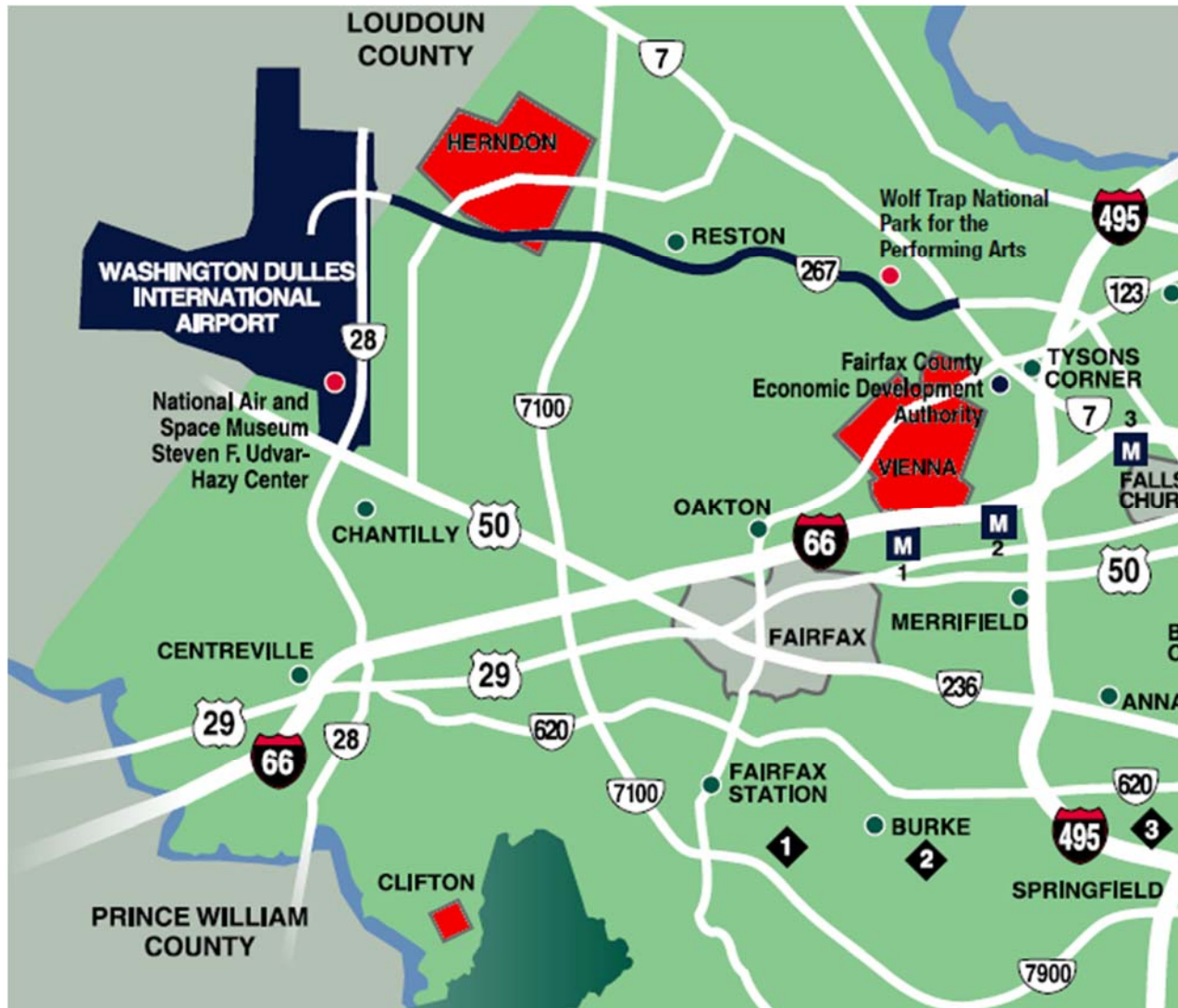
Economic Assumptions and Budgetary Influences

The underlying economic assumptions in this budget are:

- Increase in residential assessments of 2.9 percent; commercial assessments decreasing 2.1 percent (excludes new construction)
- A stable regional economy as reflected in higher business licenses (BPOL) projected revenue
- State funding projected to increase 3.1 percent
- Non-education Fairfax County contracts to increase 10.0 percent
- School tuition contract with Fairfax County Public Schools to increase 1.5 percent
- Addition of 1.0 full-time equivalent (FTE) to the General Fund employee count
- Several organization-wide factors have influenced the budgetary decisions in this budget, including:
 - The desire to maintain a comparatively low overall tax burden on City taxpayers while meeting the budgetary demands of rising costs
 - Continue the high level of services and amenities offered to citizens, including parks, roads, trash and leaf collection services, City Hall services, social welfare programs, etc.
 - Continue to address infrastructure needs and concerns that have arisen as a result of past budgetary deferrals due to economic pressures (i.e. roads, storm drainage infrastructure, and facility maintenance)
 - Consideration of the short and long-term impact of changing demographics in the City, especially the fluctuating number of school-age children living in the City, influencing the cost of schools as well as the demand for recreation and social programs

Economic Condition and Outlook

An independent jurisdiction of 6.34 square miles, just 15 miles west of Washington D.C., the City of Fairfax lies in the heart of Northern Virginia. Bounded by Interstate 66 to the north and less than five miles west of the Capital Beltway, the City is at the crossroads of the area's major north/south and east/west highways. Two major airports, Washington Dulles International Airport and Reagan National Airport, are within 30 minutes; and the City-run bus system provides direct access to mass transit at the Vienna Metro station, two miles from the center of the City.



Local Economy

The City continues to recover and adapt from the recession and the ripple effects of sustained reductions in federal spending. Sluggish employment growth persists and has impacted localities across the region. As of the end of 2013, there were 19,490 jobs within the City of Fairfax representing a slight decrease from the 2012 average of 19,731. Encouragingly the City is faring better than most with unemployment reported at 3.5%, which is well below state and national averages and an indicator of renewed interest by businesses to relocate within the City.

Downsizing by federal contractors has had a discernable impact on the regional office market. The City of Fairfax experienced an increase of almost 3.2% in office vacancy over the last year, reaching 13.6%. Fortunately the retail market continues to bolster the City's economy; at 3.7%, our vacancy rates remain among the lowest in the region.

Despite lingering economic malaise, three key revenue sources that are bellwethers for the local economy (Real Estate (RE), Local Sales and Use and Business Professional and Occupational License taxes) are projected to show significant increases. The City's largest source of revenue, RE tax continued its overall growth due to a 2.9% increase in CY 2015 residential assessments. Additionally, Local Sales and Use tax is projected to increase 2.9% over the FY 2015 Budget. Should actual experience result in substantially lower than projected revenues, the City will respond with additional cost containment efforts for non-critical services.

Economic Development

Since 1990, the Economic Development Office (EDO) has been focused on ensuring a strong economic base across the City. The EDO promotes the City's office and retail spaces to business prospects; vacant commercial properties to developers; assists businesses in their location decisions and processing through the City's administrative procedures; and acts as a facilitator for existing businesses in understanding and working through issues with city ordinances and policies.

Major Projects

Over 230,000 square feet in existing retail centers are currently undergoing renovations or have planned for future improvements or redevelopment. An additional 133,000 square feet of office space is undergoing significant exterior and interior improvements. Multiple high-end residential projects are under construction or recently added to the market.

Commercial:

Major mixed-use development projects are on the horizon that will begin to fulfill the City's Fairfax Boulevard Master Plan.

Fairfax Circle Plaza Shopping Center Redevelopment: A proposal to redevelop approximately 108,000 square feet of commercial space (the oldest dating back to 1964) was approved earlier this year. The mixed-use development will include 400 multifamily apartments and 88,000 square feet of retail (including a 54,000 square foot grocery store). Ground breaking is expected in 2017.

NOVUS: Currently a car storage lot for Ted Britt Ford, this 8.33 acre site will experience significant redevelopment over the next few years. City Council recently approved a plan to convert the site into 403 multifamily apartments, including 24 affordable dwelling units; it will also consist of 29,000 square feet of first-floor retail and commercial uses – including a 4,000-square-foot office space for use by a nonprofit, a 5,000-square-foot restaurant, and 11,000 square feet of residential amenities.

Northfax: The \$30 million Northfax transportation and stormwater improvement project is underway creating new and significant opportunities for public and private investment on Fairfax Boulevard. The City is actively working with land owners to assess potential development strategies, property consolidations and public private partnership opportunities. A feasibility study of the entire area is planned with a third-party consultant.

Aldi: Recently named as Retailer of the Year by Private Label Store Magazine, Aldi opened its newest location in the City's Kamp Washington area in September 2014. Occupying 20,000 square feet, the retailer is a welcome addition to the City, adding new well-paying jobs, providing more retail choice, and contributing to the commercial tax base.

Lowes: This big-box retailer was approved to redevelop a former Kmart in the City's Kamp Washington area, occupying roughly 75,000 square feet of space. In addition to constructing a new building, the developer will make various site improvements including facade enhancements, landscaping, adding in bike facilities and maximizing visibility of other businesses in the shopping center with new signage.

Residential:

Layton Hall. A plan to redevelop a 7.81 acre site currently occupied by a 110-unit garden apartment complex with 360 multifamily units has been approved; however financial constraints have caused the developer to place the project on hold for an indefinite period of time. In the interim the developer will proceed with renovations to the existing complex to improve curb appeal, render operations more efficient, and improve future marketability.

Eleven Oaks. Under construction and will consist of 12 single family detached units.

Residences at Main. Approved for 42 luxury town homes with more than half constructed.

Canfield Village. Under construction with approximately 29,000 square feet of commercial (office and first floor retail) and 14 town homes.

Recognition

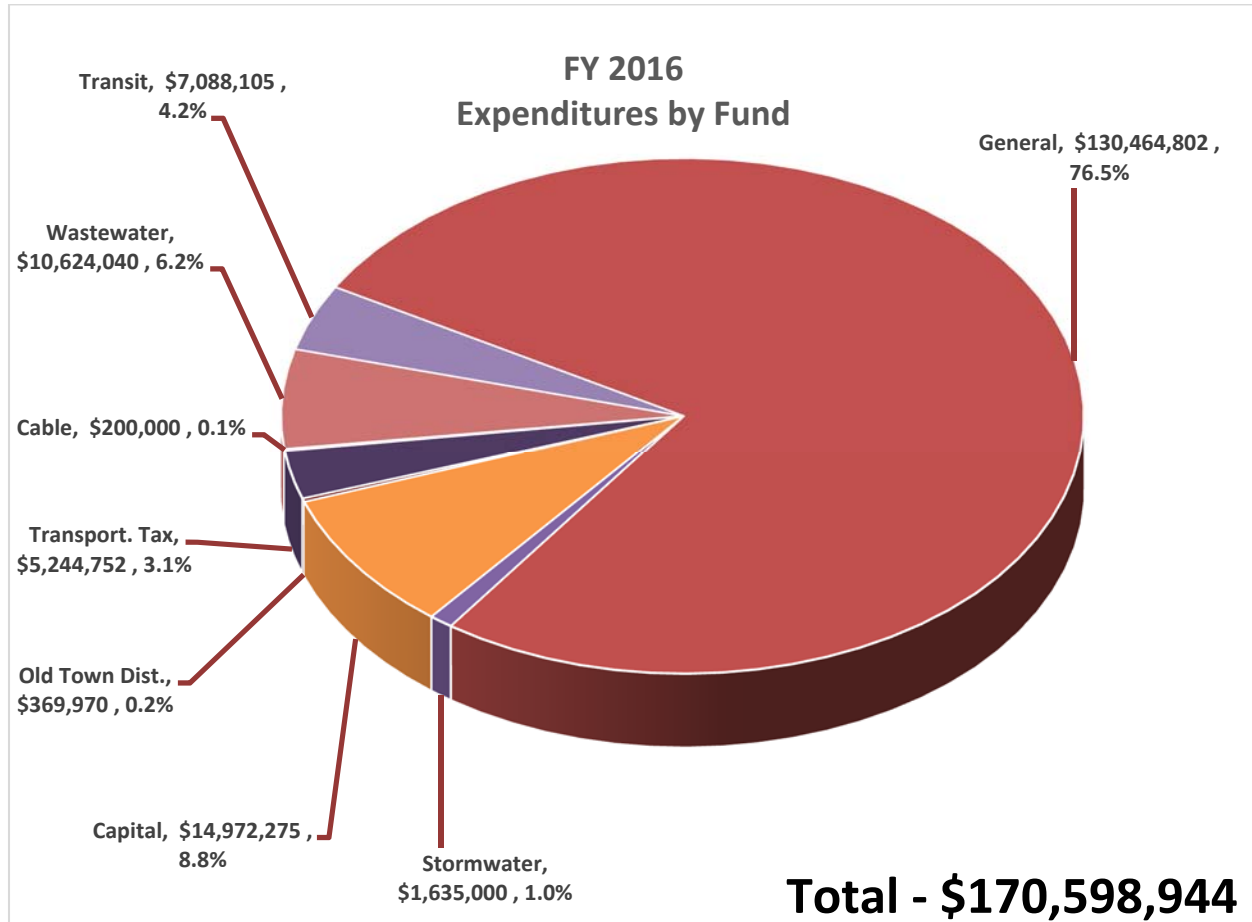
- ✚ **Google named the City of Fairfax as 2014 e-City for Virginia.** Google's eCity Awards "recognize the strongest online business community in each state," observing how businesses in each city use their Web presence for business development and customer service.
- ✚ **The Mason Enterprise Center at George Mason University** was recently named as one of the Top 10 U.S. and Top 20 Global University Business Incubators (UBI) by the UBI Index. A project spearheaded and supported by the City of Fairfax in an ongoing partnership with Mason, the Mason Enterprise Center (MEC) is an integrated network of programs and professional resources. It provides direct support for university and corporate-based entrepreneurship, technology transfer and innovation, as well as support for private sector clients engaged in business start-up and expansion.
- ✚ **City of Fairfax wins the National Gold Medal Award, 2011** The Gold Medal Award honors communities throughout the United States that demonstrate excellence in long-range planning, resource management, volunteerism, environmental stewardship, program development, professional development and agency recognition in the area of Parks and Recreation.



- ✚ **Forbes called the City "a great place for entrepreneurs"** and stated the City's sole-proprietors-per-capita ranks in the top 1% nationwide. The Atlantic magazine, a brand of Atlantic Media, which is dedicated to equipping opinion leaders with breakthrough ideas and original insights," recently identified the City as one of the nation's top jurisdictions for its high concentration of "creative class" workers.
- ✚ In 2009, the City was ranked **third by Forbes magazine in their article titled "America's Top 25 Towns to Live Well."** The City is proud of this accolade based on the quality of services provided to the citizens, and the significant investments made to its schools, parks, public buildings, and land purchases as part of open space preservation.
- ✚ **The City's bond ratings continue to be Aaa (Moody's) and AAA (Standard & Poor's),** placing the City in the top tier of municipal bond issuers.

Overview – All Funds

Expenditures for all funds total **\$170,598,944**. Less General Fund transfers (\$7,674,458), net expenditures total **\$162,924,486**. This is an increase of 1.1 percent over the FY 2015 Budget. Further details follow in the accompanying sections of the budget book.



Note: Percentages may not total due to rounding; sums may differ immaterially due to rounding

Cash Management / Fund Balance

Financial policies recommended by the City’s financial advisors, the City’s auditors, and as adopted by the City Council, require an unassigned fund balance equal to a minimum of approximately 10 percent of General Fund expenditures. More than being key to maintaining the City’s bond rating, an adequate fund balance allows the City to cope with revenue shortfalls, to pay for unbudgeted expenditures or unanticipated needs, to pay for other one-time large expenditures, and provide for adequate cash flows to absorb fluctuating expenditures and revenues during the fiscal year. The Adopted FY 2016 Budget results in a 10.0% fund balance. In addition, \$256,000 was budgeted as Assigned School Tuition Reserve in FY 2015. This reserve balance is scheduled to remain unchanged through FY 2016.

The following chart provides a history of the City’s General Fund Balance:

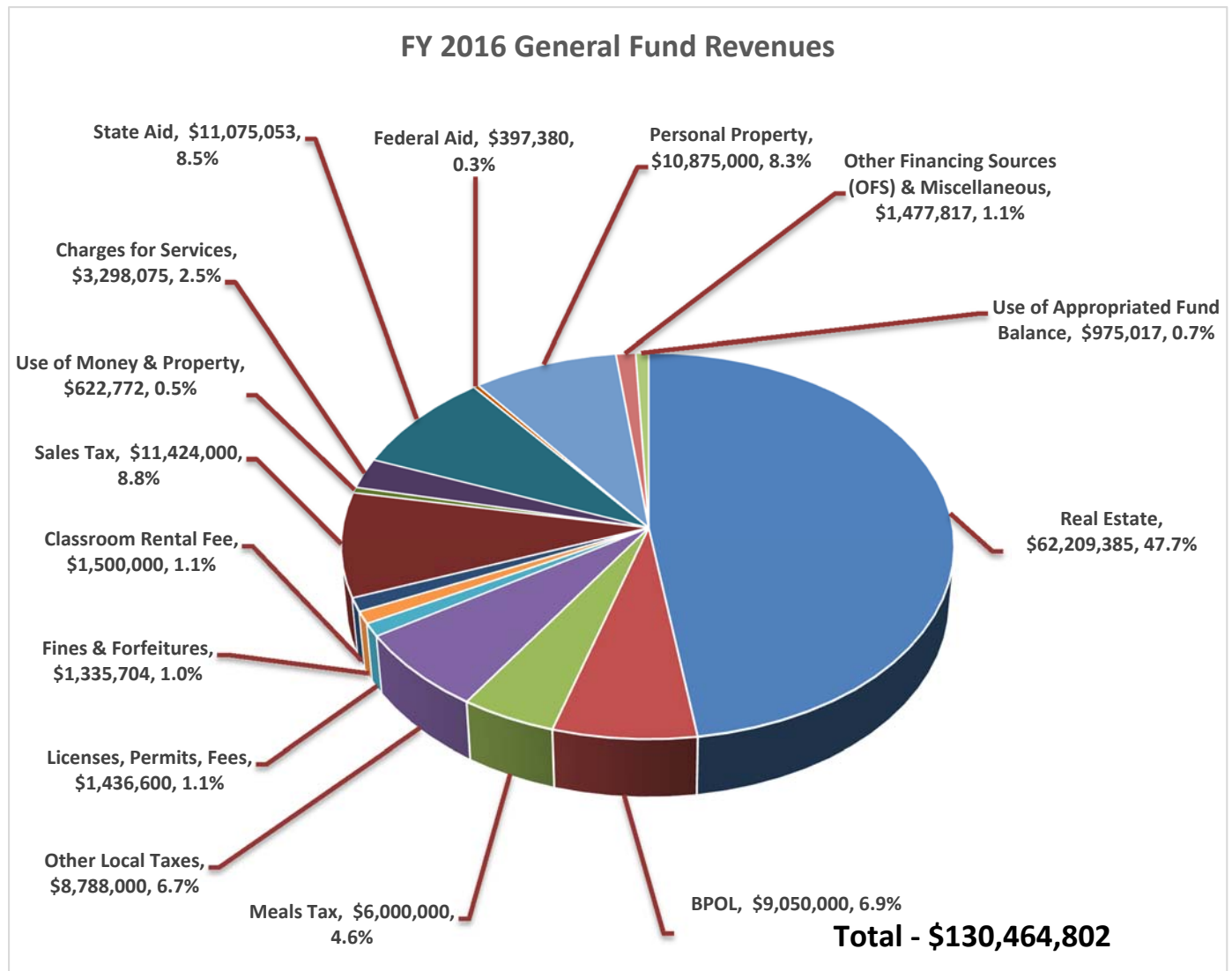
General Fund - Fund Balance		
Fiscal Year	Amount	% of Expenditures
2016*	\$13,058,512	10.0%
2015*	14,033,529	10.9%
2014	15,130,848	12.0%
2013	16,288,209	13.7%
2012	13,205,665	11.4%
2011	15,171,679	13.8%
2010	15,569,907	14.1%
2009	14,420,568	13.1%
2008	15,834,008	14.8%
2007	14,612,497	14.6%
2006	14,278,483	14.6%
2005	12,534,246	11.3%
2004	10,975,387	13.4%

* Estimate

General Fund Revenues

Overview – General Fund

General fund revenues equate to \$130,464,802 for FY 2016, which represents an increase of 2.0% (\$2,492,331) over FY 2015. The following chart provides a summary overview of revenues by category for FY 2016.



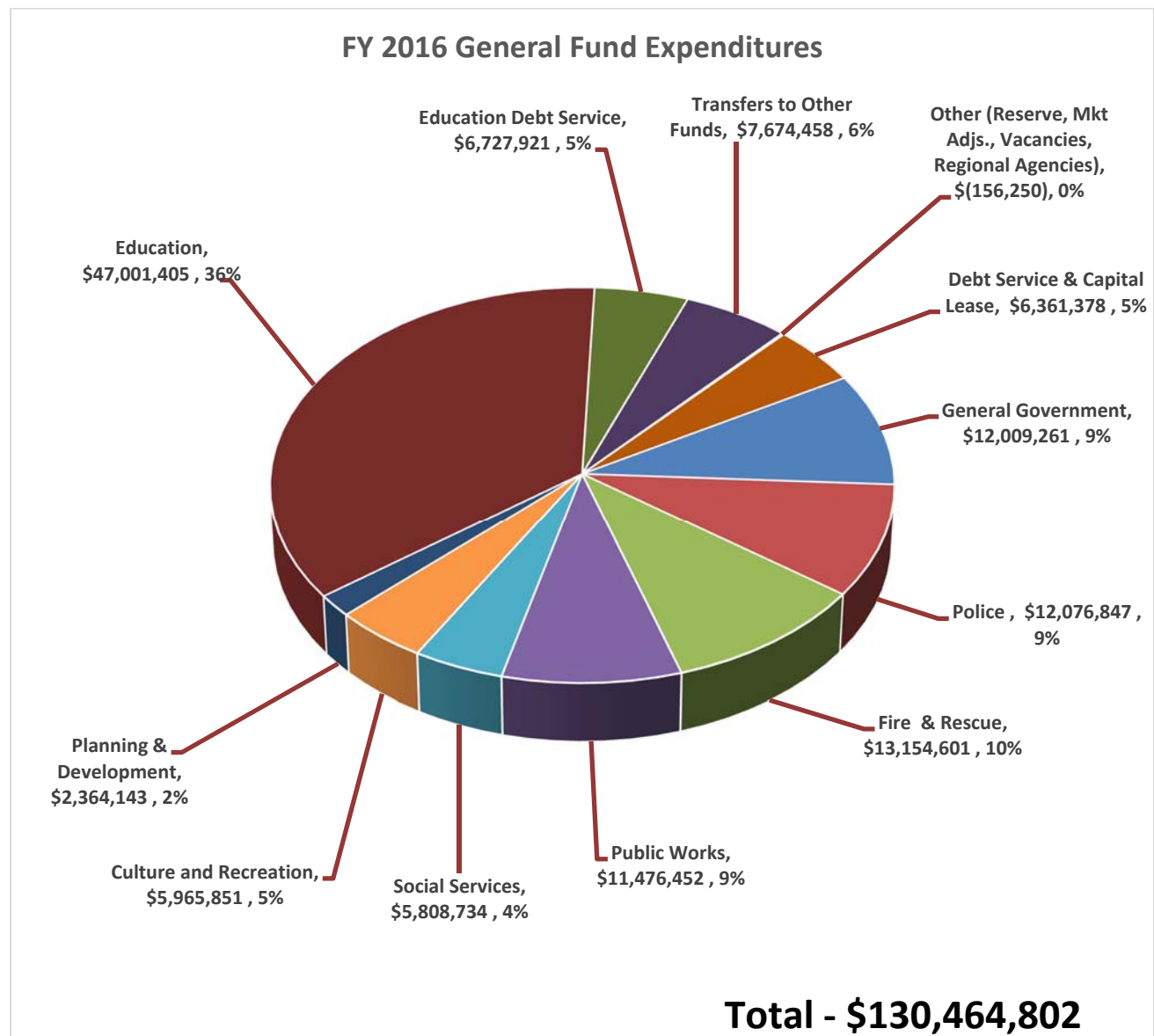
Note: Percentages may not total due to rounding; sums may differ immaterially due to rounding

The Use of Appropriated Fund Balance in the amount of \$975,017 is from the FY 2015 estimated Unassigned General Fund balance. The estimated ending Unassigned General Fund Balance in FY 2016 is equal to 10.0 percent (\$13.1 million) of General Fund expenditures.

General Fund Expenditures

Overview- General Fund

The City's General Fund expenditures are budgeted at \$130,464,802 for FY 2016. The largest spending category remains Education, followed by the Fire Department, Police Department, General Government and Public Works. The "Transfers to Other Funds" category notes the General Fund transfers to the Capital Budget, Old Town Fund, Stormwater Fund, and Transportation Tax Fund.



Note: Percentages may not total due to rounding; sums may differ immaterially due to rounding

General Fund Revenue and Expenditure Changes - FY 2015 to FY 2016

The following chart highlights the major changes in expenses from last year's budget:

FY 2016 General Fund Expenditure Changes

Increase / (Decrease) in Expenditures	\$ Change
Changes in Personnel Costs:	
City Retirement Plan Costs	(815,691)
Other Fringe Benefits Adjustments	131,171
Merit	313,494
COLA	270,407
Reduction in Salary Vacancy	641,101
Other Compensation Adjustments	31,549
All Other Changes	137,127
School Tuition Contract	661,107
County Contracts - Non Education	646,238
CIP Transfer	131,008
Transfer to C & I (2.0¢ Rate increase)	344,821
Total Increase / (Decrease) in Expenditures	2,492,331

The following chart highlights the major changes in revenues from last year's budget:

FY 2016 General Fund Revenue Changes

Increase / (Decrease) in Revenues	\$ Change
Real Estate Taxes	845,334
C&I Taxes (due to Tax Rate Change 2.0¢)	344,822
Personal Property Taxes	378,608
Local Sales & Use Tax	324,000
All Other Changes	19,623
Ambulance Fees	234,665
State Sales Tax & Basic Aid	343,437
Safer Grant	217,000
Appropriated Fund Balance Repayment (FY 2015)	500,000
School Tuition Reserve (FY 2015)	256,000
Use of Surplus/Unassigned Fund Balance	(971,158)
Total Increase / (Decrease) in Revenues	2,492,331

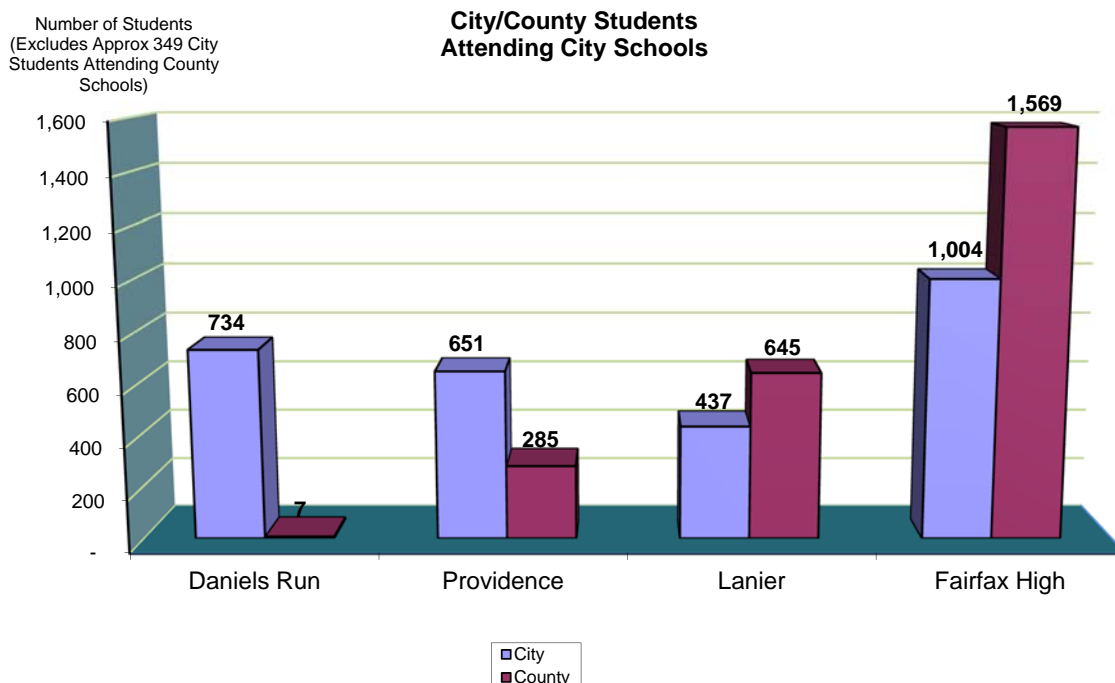
Education

The total budget for the schools is \$53.7 million, an increase of .7% (\$.38 million). Administrative costs account for \$0.9 million, and combined debt/lease payments equate to \$6.7 million. The largest portion of this budget is the school tuition contract with Fairfax County Public Schools, budgeted at \$46.1 million, an increase of 1.5% (\$0.66 million) over the FY 2015 budget. The following chart highlights the historical costs associated with the school tuition contract.

Fiscal Year	Final Tuition Bill (excludes Classroom Rental Fee)	ADM
2016*	\$ 46,088,864*	3,135*
2015*	45,127,757*	3,132*
2014	44,029,716	3,077
2013	43,361,720	3,107
2012	40,392,677	3,081
2011	37,927,714	2,976
2010	37,380,696	2,905
2009	37,625,873	2,764
2008	37,806,032	2,771
2007	34,188,018	2,766
2006	32,785,342	2,745
2005	30,679,214	2,784
2004	27,291,210	2,767
2003	26,534,379	2,751

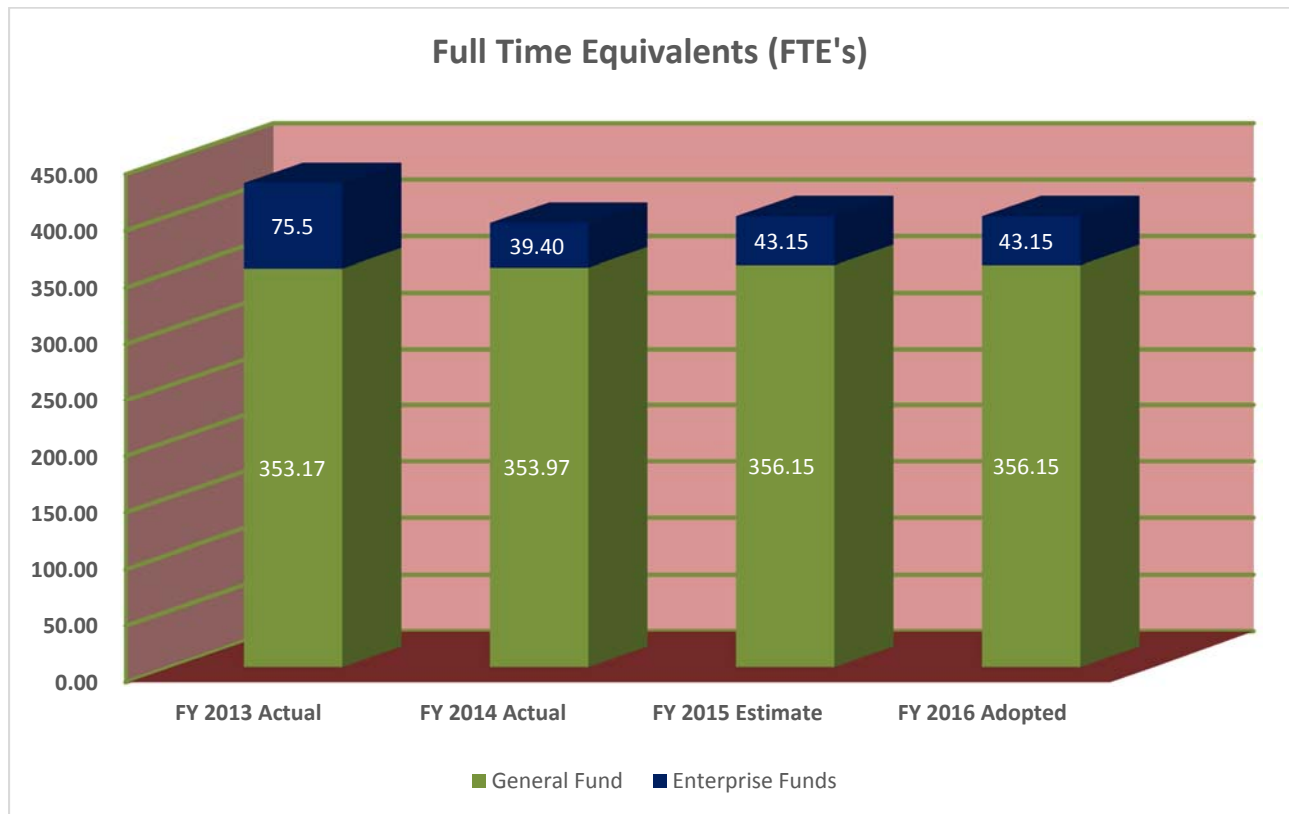
* These figures are reconciled to actual amounts after the close of the respective fiscal year and may be adjusted

City students comprise a majority of the total population at both Daniels Run and Providence Elementary Schools at 99% and 70%, respectively. Lanier Middle School and Fairfax High School statistics note that City students represent 40% of their schools' populations.



Employees, Salaries and Fringe Benefits

The FY 2016 budget provides for a 3.5% merit (step) increase for eligible employees, and a 1.0% market adjustment (COLA). Employee benefits remain unchanged; however, FY 2016 retirement costs in the General Fund are projected to decrease by overall by \$0.6 million due to a reduction in the recommended City contribution to its supplemental retirement plan.



Contract Services

Expenses for county and regional service contracts make up 42.1 percent of the City's General Fund expenditures. The City contracts with Fairfax County for many services, the largest of which is the City's School Tuition Contract.

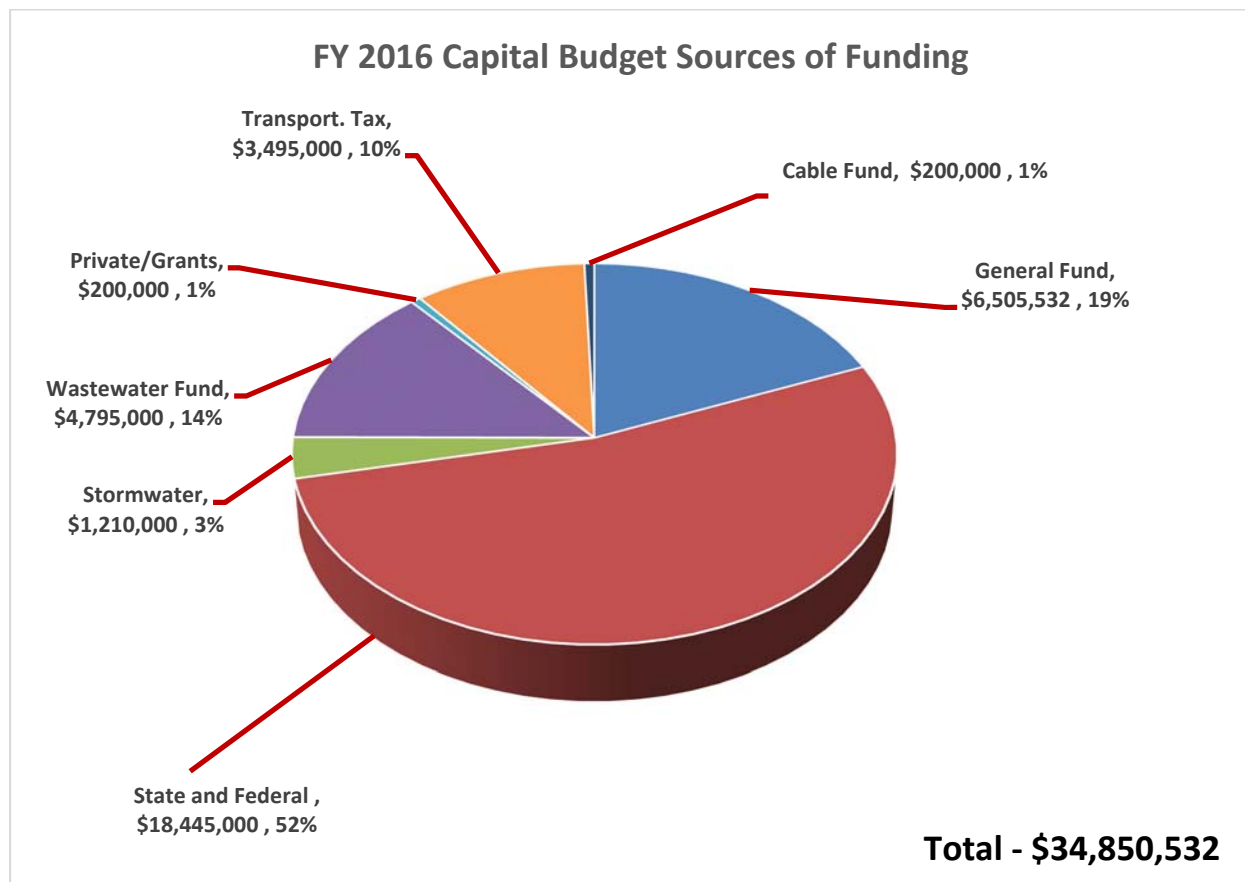
City-County and Regional Service Contracts				
	FY 2015 Budget	FY 2016 Adopted	Variance to Budget \$	Variance to Budget %
City-County Contracts:				
School Tuition Contract	\$ 45,427,757	\$ 46,088,864	\$ 661,107	1.46%
Library Services	797,334	801,947	4,613	0.58%
Joint Court Service	269,918	266,336	(3,582)	-1.33%
Juvenile and Domestic Court	447,860	469,302	21,442	4.79%
Commonwealth Attorney	77,114	107,079	29,965	38.86%
Jail and Custody Service	1,361,136	1,752,772	391,636	28.77%
Fire & Rescue – Operations	132,713	194,000	61,287	46.18%
Refuse Disposal	450,000	450,000	-	0.00%
Extension - County Agent	47,795	48,298	503	1.05%
Social Services	1,720,656	1,783,393	62,737	3.65%
Health Department	1,166,628	1,244,265	77,637	6.65%
Subtotal City-County Contracts	51,898,911	53,206,256	1,307,345	2.52%
Regional Agencies:				
Community Services Board	1,453,677	1,510,434	56,757	3.90%
Council of Governments	16,586	16,996	410	2.47%
Health Systems Agency	2,350	2,350	-	0.00%
Area Agency on Aging	46,701	46,701	-	0.00%
Legal Services of NoVa	23,042	24,079	1,037	4.50%
NoVa Community College	1,894	1,895	1	0.05%
NoVa Regional Commission	17,334	17,563	229	1.32%
NoVa Regional Park Authority	44,431	45,309	878	1.98%
Volunteer Center	7,046	7,040	(6)	-0.09%
Subtotal Regional Agencies	1,613,061	1,672,367	59,306	3.68%
Total Contract Services	\$ 53,511,972	\$ 54,878,623	\$ 1,366,651	2.55%

Capital Fund

The adopted Capital Improvement Program for FY 2016 totals **\$34,850,532**. The chart below summarizes the City's adopted capital improvement plan and compares to the adopted FY 2015 program.

Category	FY 2015 Adopted	FY 2016 Adopted	Change	
			\$	%
Schools	\$ 481,500	\$ 250,187	\$ (231,313)	-48.04%
General Government	2,326,986	2,682,483	355,497	15.28%
Recreation / Community Appearance	525,295	600,862	75,567	14.39%
Environment	4,092,000	6,355,000	2,263,000	55.30%
Transportation	21,205,317	24,962,000	3,756,683	17.72%
General Fund Subtotal	\$ 28,631,098	\$ 34,850,532	\$ 6,219,434	21.72%

In addition to the General Fund, funding for the Capital Fund comes from the Wastewater Fund, Federal and State funds (including NVTa 70% funds available under HB 2331), the Cable Fund, privately donated funds, the Stormwater Fund, and the Transportation Tax Fund (includes NVTa 30% funds available under HB2331). The following chart illustrates the sources of funding for the Capital Budget in FY 2016; additional information can be found in Section G of this budget.



Note: Sums may differ immaterially due to rounding

Wastewater Fund

	FY 2014 Actual	FY 2015 Adopted	FY 2015 Estimate	FY 2016 Adopted
Revenues	\$ 5,022,178	\$ 9,726,232	\$ 9,119,063	\$ 11,208,825
Expenditures	\$ 4,693,886	\$ 8,221,421	\$ 8,870,129	\$ 10,624,040
Rate Increase	12%	10%	10%	10%

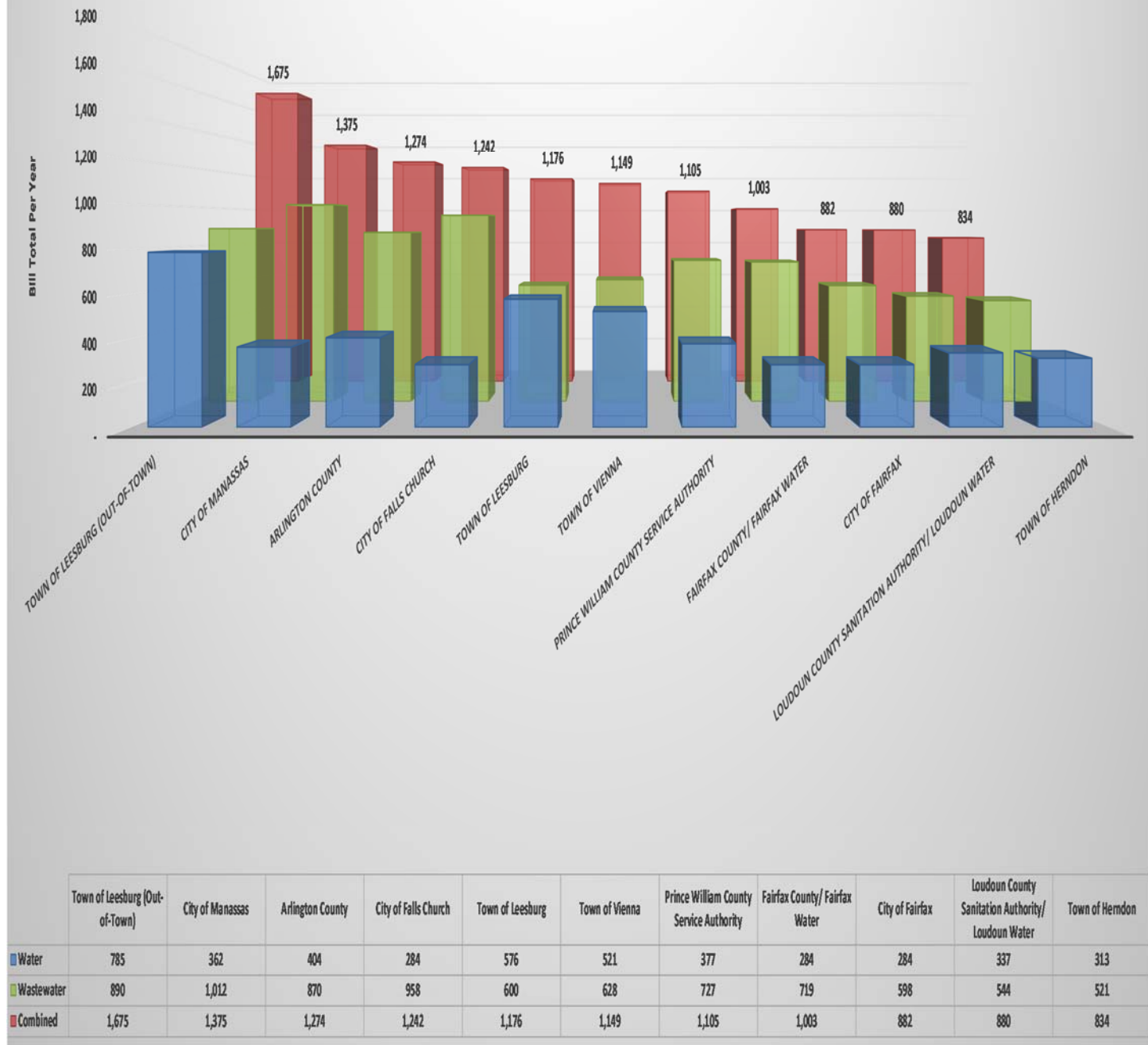
For FY 2016, a rate increase of 10 percent has been adopted for the Wastewater Fund in order to keep pace with future operating, capital, and debt service costs as well as building the Wastewater Fund balance to industry recommended levels. In FY 2010, the City was officially notified of planned cost increases related to the City's cost sharing agreement with Fairfax County for the treatment of the City's wastewater at the County's Noman M. Cole Water Pollution Control Plant. This plant is subject to continuing stringent environmental standards to protect the Chesapeake Bay and therefore, numerous process upgrades to reduce nitrogen and phosphorus are mandated. Additionally, there are general capital upgrade costs, unrelated to treatment techniques that must be addressed at this facility. The City's portion of these upgrades is projected to be approximately \$40.6 million by 2023. The City has successfully financed the first two phases of these costs and has established a payment schedule acceptable to both jurisdictions. Future rate increases to enable repayment of the debt for the Wastewater treatment plant upgrades and modifications will be significant. Establishment of a future rate increase schedule was prepared to match the financial forecast and ensure rate stabilization.

Apart from the financial requirements of the Wastewater treatment facility, in FY 2009 the City undertook an analysis of the Wastewater collection system. Numerous infrastructure recommendations were made by the City's consulting engineers and financial advisors which resulted in the preparation of a multiyear Capital Improvement Plan. FY 2016 will require \$1,350,000 for continued wastewater conveyance maintenance to include pipe relining, manhole rehabilitation and an asset management program.

The three-year forecast for Wastewater fee increases is 10 to 12 percent per year. These increases are primarily driven by needed infrastructure improvements, particularly at the Noman M. Cole Water Pollution Control Plant.

The following chart is a comparison of the average quarterly residential cost for wastewater treatment by local jurisdiction.

**FY16 ADOPTED ANNUAL
TOTAL RESIDENTIAL WATER & WASTEWATER BILLS**
(Based on 96 tgal of water consumed per year)



Transit Fund

	FY 2014 Actual	FY 2015 Budget	FY 2015 Estimate	FY 2016 Adopted
Revenues:				
Local	\$ 578,554	\$ 637,700	\$ 615,000	\$ 617,000
GMU Contribution	720,000	720,000	720,000	720,000
NVCT	224,602	882,307	928,000	828,000
DRPT	2,084,306	3,173,353	3,173,353	3,173,353
Transfer from Transportation Tax Fund	1,275,000	1,352,783	1,373,551	1,749,752
Total Revenues	\$ 4,882,462	\$ 6,766,143	\$ 6,809,904	\$ 7,088,105
Expenditures:				
Operating Expenditures	\$ 3,431,491	\$ 3,592,789	\$ 3,636,551	\$ 3,914,752
DRPT transfer to NVCT Fund	2,084,306	3,173,353	3,173,353	3,173,353
Total Expenditures	\$ 5,515,797	\$ 6,766,142	\$ 6,809,904	\$ 7,088,105

The City/University/Energysaver (CUE) bus system provides an alternative transportation mode for City and area residents and George Mason University (GMU) students and faculty throughout the City and to and from GMU and Metro. The City has operated the CUE system since 1985 and provides 12 buses on a fixed route system traveling 441,430 vehicle miles during 30,215 hours of operation each year.

The adopted basic fare (cash or Smarttrip) is \$1.75, which matches WMATA's rate. GMU currently contributes \$720,000 annually to cover the cost of student and faculty ridership. The chart below summarizes CUE's past financial results. As directed by the Department of Rail and Public Transportation (DRPT) in FY 2014, Transit Fund revenues and expenditures reflect the pass through of funds from DRPT to the Washington Metropolitan Area Transit Authority (WMATA) on the City's behalf. CUE did not require a subsidy since FY 2012 because supplemental funding available from the Transportation Fund currently supports the Transit Fund deficit.

Acknowledgements

The budget is the product of an intensive effort by staff in all City departments. Appreciation is expressed to David Hodgkins, Assistant City Manager / Director of Finance, Jennie Tripoli, Assistant Director of Finance and Kerry Kidd, Budget Manager who have principal responsibility for the preparation of this document. Others who contributed significantly to the preparation and printing include Romelyn Guzman, Melanie Crowder, and Joanna Ormesher. Additional thanks go to each of the Department Directors, the City School Superintendent and staff, the Constitutional Officers and every employee who participated in finalizing materials for City Council's deliberation.



Old Town Square Fountains

Budget Information Request

Copies of the FY 2016 Adopted Budget and FY 2016-2020 Capital Improvement Program (CIP) are available as follows:

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City Hall
10455 Armstrong Street, Room 312
Fairfax, VA 22310
Phone: 703-385-7870
E-mail: romelyn.guzman@fairfaxva.gov

City website: <http://www.fairfaxva.gov/budget/budget.asp>

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